

Ladies & Gentlemen,

The year 2006 begun with an encouraging outlook for the Lebanese Economy before a change of tendency took place after the sudden deterioration of the security climate during the second half of the year. The July war caused tremendous damages and losses to the overall country and hampered the performance of all the economic sectors. Consequently, the real growth of the Gross Domestic Product (GDP) has registered an estimated contraction of 5% at the end of 2006.

However some sectors and particularly Banking showed a steady resistance and a capacity to face the challenges of this period:

The Balance of payments scored a substantial surplus amounting to US\$2,794.5 Mio and the Central Bank maintained its Gross Foreign Reserves at a high level amounting to US\$13.31 Bio at December 31, 2006.

The Banks' consolidated balance sheet grew by 8.3% end of 2006, and the deposits in the Banking Sector by 6.5%.

However, the Budget registered a deficit of US\$3 Bio, outlining a large increase of 64% compared to 2005 deficit, while the Net Public Debt increased by 7.7% and reached the equivalent of US\$37.4 Bio end of 2006.

The exchange rate of the National Currency remained stable versus the US Dollar, and the Interest Rates resisted in the face of the strong pressures of the market.

In this prevailing atmosphere, BIT Bank was ready, with its conservative operating policy, to face all the adversities. The Bank pursued its strategic plan of growing a broad range of services and products and investing in young and dynamic people.

Thus, within the diversification of the Bank's activity, BIT Bank promoted a new product, the "Bancassurance" by developing a range of insurance plans. A new department "Sales and Business Development" was created aiming to improve our customer service and to customize BIT retail products to answer our clients' needs. The Retail Banking department was reorganized offering to BIT customers efficient and reliable services in a personal, helpful and responsive manner. Another new department "Real Estate Management" was created also to support the bank in its activities related to real estate advisory and investment.

Late 2006, the Bank introduced as well *BITOnline*. This service is an integrated module in the core banking application that enables the customers to conduct their banking operations through the Internet.

The Bank reinforced its Risk Management and focused on Operational Risk issue. Regular training and seminars to employees was given to enhance awareness and establish a consistent operational risk management culture across the bank. Also a "Business Continuity Plan" for the Bank was developed including different scenarios with related solutions to avoid disruption of Bank's activities in critical situations.

BIT Bank maintained a relatively high risk based capital ratio of 23.7% and a liquidity ratio of 78%. Return on average Assets and Return on average paid up Capital in year 2006 stood at 0.4% and 8% respectively.

For many years, and in view to strengthen its provisions and net worth, the Bank allocated a big portion of the yearly profits to provisions for credit losses. This practice has generated an over provision balance totaling US\$2.53 Mio end of 2006, which will be transferred later on to the capital account in consolidation of the shareholders' equity.

Finally, I would like to express my sincere thanks to our Shareholders for their constant support and encouragement, our Staff for their steadfast commitment to the expansion of BIT BANK and our Clients for their loyalty and confidence. This is to insure, in conjunction with the strategy pursued by the Bank's Management, a profitable growth and sustainable competitiveness of BIT BANK for the years to come.

Sincerely,



Fouad El Khazen

Chairman - General Manager

ECONOMIC & MONETARY

INDICATORS

The last two years were governed by serious disturbances in the political and security environment. This adverse climate affected severely the overall economic activity. However, a satisfactory performance took place in the late 2005 and over the first half of 2006, before a sudden reversal occurred since the July war, leading to a combined situation of inflation (almost 7% for 2006) and stagnation.

Accordingly, the real growth of the Gross Domestic Product (GDP) has recorded an estimated contraction of 5% at the end of 2006.

- **External Trade**
- **Balance of Payments and Central Bank Reserves**
- **Budget Deficit and Public Debt**
- **Exchange and Money Markets**
- **Banking Sector**

External Trade

The Exports registered an important increase of 21.4% in 2006 compared to 2005, while the Imports increased by 0.62% for the same period, reaching respectively US\$2,282 Million and US\$9,398 Million. Thus, the Trade Balance deficit decreased by 4.6% and reached the amount of US\$7,115 Million.

Balance of Payments and Central Bank Reserves

The Balance of Payments registered a surplus for 2006 amounting to US\$2,794.5 Million, compared with a surplus for 2005 amounting to US\$747.2 Million, as a result of growing capital inflows.

This surplus has been reflected on the Central Bank Gross Reserves in foreign currencies, which amounted to US\$13,313.3 Million at December 31, 2006 against US\$11,828.7 Million at December 31, 2005, and on total foreign reserves, including gold, which reached US\$19,120.5 Million against US\$16,565.2 Million end of 2005

Budget Deficit and Public Debt

The Budget Deficit amounted to LBP4,582 Billion (US\$3,039 Mio) in 2006 against LBP2,798 Billion (US\$1,856 Mio) in 2005, outlining a large increase of 64%. This increase was generated by an increase of 16.4% in total public expenditures during this period and a decrease of 1.5% in total public revenues. The Budget Deficit represented 38.6% of Total Budget (27.4% in 2005) and 62.8% of total revenues (37.8% in 2005).

On the other hand, **Public Debt Service** rose by 29%, from LBP3,534 Billion (US\$2,344 Mio) at 2005 year-end to LBP4,557 Billion (US\$3,023 Mio) at 2006 year-end. Public Debt Service represented 38.4 % (34.6% for year 2005) of total public expenditures and 62.5% (47.7% for year 2005) of total public revenues for the year 2006.

The Net Public Debt reached the equivalent of US\$37.4 Billion end of 2006 against US\$34.8 Billion end of 2005 registering an increase of 7.7%:

The Net Domestic Debt increased from LBP23,551 Billion end of 2005 to LBP25,760 Billion end of 2006. The Central Bank contribution in total public debt in Lebanese Pounds declined from 40% in year 2005 to 31.7% in year 2006. In figures, it amounted to LBP9,588 Billion end of 2006 against LBP11,686 Billion end of 2005. While the contribution of the Commercial Banks went up for the same period, from 48.5% to 54.6%. In figures, it rose from LBP14,130 Billion end of 2005 to LBP16,487 Billion end of 2006. It should be noted that the amounts do not include the credits granted according to Paris II, and, starting from 2003, the Obligatory placement with BDL, zero coupon.

The foreign-currency denominated Public Debt rose by 6.35% and registered US\$20,349 Million end of 2006 against US\$19,134 Million end of 2005. They represented 54.35% of total net Public Debt for year 2006 (55.1% for year 2005)

Exchange and Money Markets

Despite the strong pressures on the national currency, the Lebanese Pound remained stable vis-à-vis the US Dollar on the domestic market, during the year, with an average exchange rate of LBP1,507.5 per US\$ at end of 2006 and 2005.

As for Bank Interest Rates, the average LBP lending rate went up from 10.12% in December 2005 to 10.37% in December 2006, and the average LBP deposit rate declined from 7.70% to 7.49% for the same period.

Following a downward trend after Paris II, the Interest Rates on all categories of Treasury Bills increased in 2005 because of the political tensions. Thus, yields on the three-month, six-month, one-year and two-year Treasury Bills reached 5.22%, 7.24%, 7.75% and 8.50% respectively, at end of 2005 and remained at these levels as at end of 2006. The yield on the three-year Treasury Bills stood at 9.32% as at end of 2006 against 9.34% as at end of 2005.

Banking Sector

Despite the war of July, the Banks' consolidated balance sheet noted a growth of 8.3% end of 2006 (3.75% end of 2005), standing at LBP114,840 Billion or US\$76.18 Billion (US\$70.3 Billion end of 2005).

The Volume of **Deposits of Private Sector** in the Banking System (including non-resident deposits) reported a net growth of 6.5% relative to 2005 (3.9% in year 2005). They amounted to LBP91,494 Billion equivalent to about US\$60.7 Billion at the end of 2006 (US\$57 Billion end of 2005).

Deposits in Lebanese Pounds declined by 5.7% end of 2006 (and by 6.9% end of 2005). They went down from LBP23,081 Billion at end of December 2005 to LBP21,763 Billion at end of December 2006. They represented 23.8% of total bank deposits against 26.87% in year 2005.

While **Deposits in Foreign Currencies** rose by 11% in year 2006 (8.5% in year 2005). They increased from US\$41,675 Million at end of December 2005 to US\$46,256 Million at end of December 2006.

Loans and Advances to Private Sector (including loans to non-resident) increased by 9.3% in year 2006 (and by 2.94% in year 2005), reaching LBP28,528 Billion or US\$18.9 Billion (US\$17.32 Billion in year 2005).

Loans in Lebanese Pounds rose by 10.7% (only by 0.9% in year 2005). They went up from LBP4,306 Billion at end of December 2005 to LBP4,768 Billion at end of December 2006, and their share of total bank credits reached 16.7% (16.5% in the previous year).

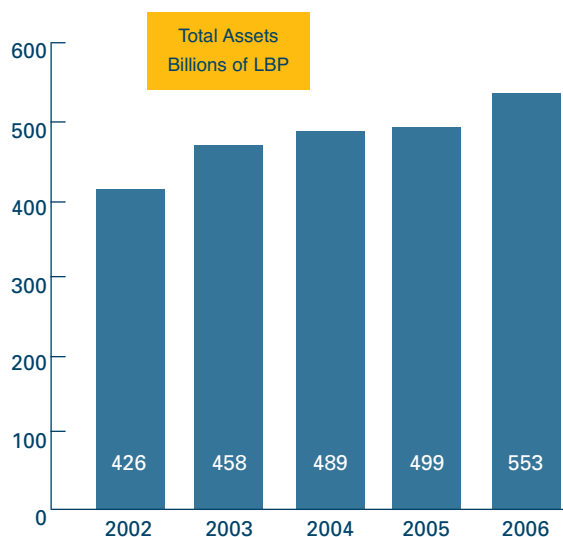
While **Loans in Foreign Currencies** increased by 8.97% (by 3.35% in the previous year). They went up from US\$14,463 Million at end of December 2005 to US\$15,761 Million at end of December 2006.

Financial Review of the Bank

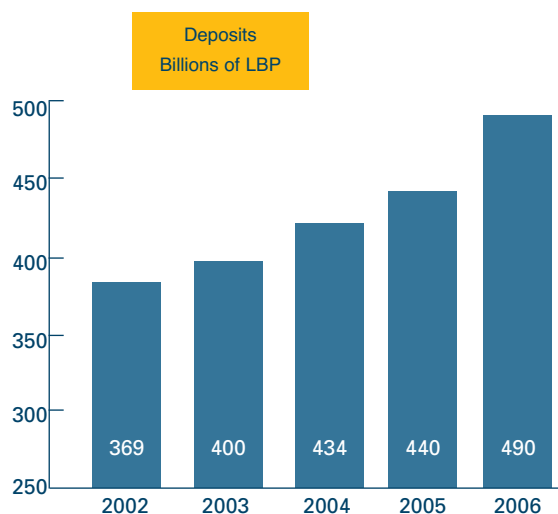
- **Overview**
- **Sources of Funds**
- **Application of Funds**
- **Operating Results**

I- OVERVIEW

Despite the slowing down of the Lebanese Economy, BIT Bank's total assets registered a 10.9% growth at the end of 2006, compared to an 8.3% growth in the Lebanese Banking Sector. It went up from LBP498.73 Billion (US\$330.8 Million) at the end of 2005 to LBP553.21 Billion (US\$367 Million) at the end of 2006.

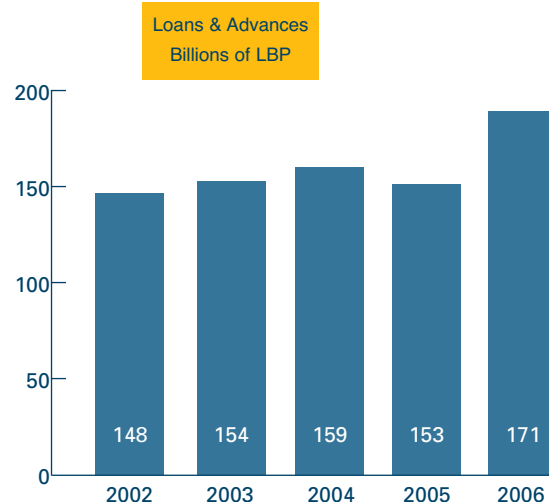


Customers' Deposits followed the same trend. They recorded a growth of 11.4% at the end of 2006 compared to a 6.5% growth in the Lebanese Banking Sector. Total deposits increased from LBP440.16 Billion (US\$291.98 Million) at the end of 2005 to LBP490.40 Billion (US\$325.30 Million) at the end of 2006.



The following caption continues to evolve at a slow shape.

In fact, Total Loans and Advances to customers increased at the end of 2006 by 11.8%. They varied from LBP152.65 Billion (US\$101.26 Million) at the end of 2005 to LBP170.7 Billion (US\$113.24 Million).



Loans to Deposits ratio in Foreign Currencies decreased from 46.3% in 2005 to 43.6% in 2006 year-end. While the Loans to Deposits ratio in LBP increased from 4.8% in 2005 to 6.4% in 2006 year-end.

Consequently, the liquidity of the Bank has improved securing a better and more sound assets readiness.

The liquidity ratio (cash, banks, T/Bs in LBP and US Dollar and available-for-sale securities over deposits net of cash collateral) is maintained at a high level and is composed of the following:

Net liquidity ratio	2006	2005
LBP	99.93%	101.30%
US\$	70.03%	67.40%
Compounded ratio	77.90%	77.62%

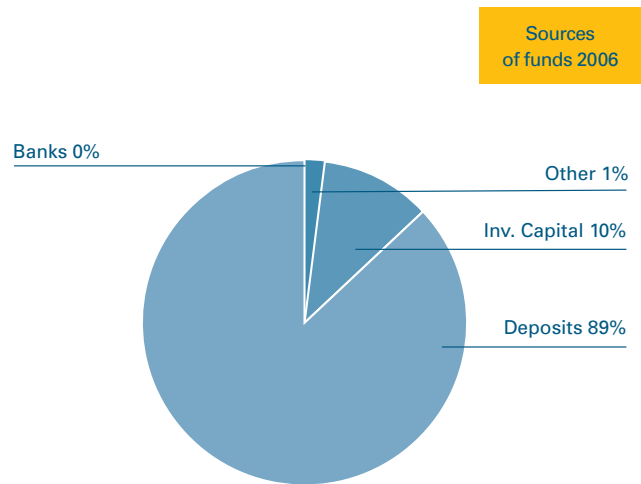
The Banking Control Commission has recommended a new calculation of the net liquidity ratio in US\$ which excludes TBs in Foreign Currencies and the compulsory reserve deposit at the BDL according to circular #236. This ratio stood at 27.56% as at December 2006 (minimum required by said circular being 10%).

II - SOURCES OF FUNDS

Millions of LBP	2006	2005
Banks	29	31
Deposits	490,396	440,162
Other financial accounts	7,899	7,521
Shareholders' funds/ Equity	54,890	51,014

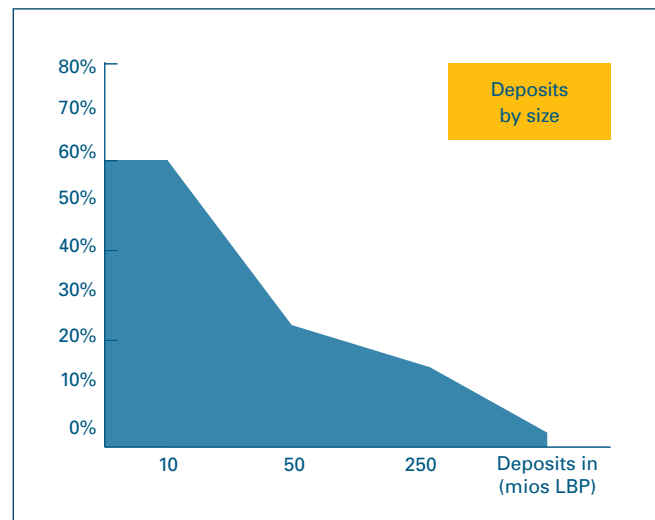
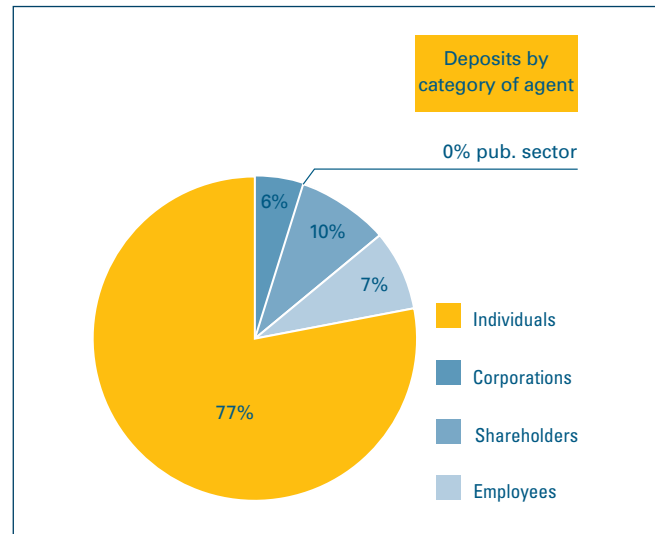
BIT has a solid funding base. Customer deposits continued to be the major source of funds (88.64%).

About 10% of BIT's funding is from Investment Capital. The share of Banks and Financial Institutions is insignificant.



a - Deposits:

Deposits are allocated at December 31, 2006 for 76% in Foreign Currency, and for about 24% in Lebanese Pound. Within these customer accounts, the majority (85%) are in the form of saving accounts or time deposits.



b - Shareholders' Funds/ Equity

The Bank continued to enforce its capital base in the form of cash contribution to Capital. For that, between 1992 and 1997, the shareholders made a non-refundable and interest free capital injection of US\$9.725 Million. In November 2005, they made another capital injection of US\$4.5 Million. This increase comes as part of a total increase of US\$29.5 Million. The remaining Capital of US\$25 Million was supposed to be injected during 2006, but it has been postponed due to the unsecured situation in the country. The Bank's shareholders equity would become around US\$60 Million and will enhance its corporate and commercial activities. These amounts are booked and maintained in foreign currency thus providing a hedge against national currency fluctuation. The Central Bank of Lebanon considers shareholders' cash contribution to capital to be Tier I Capital.

Further, the Bank has conducted a partial revaluation of assets originally booked at-long-out-of-date acquisition prices, revalued in 1996 to take advantage of tax laws allowing a concessionary tax rate of only 1.5% on such revaluations. Another advantage of the revaluation is a 10% saving on dividend withholding taxes to the extent dividends do not exceed the amount of the revaluation surplus. The Central Bank of Lebanon has given its approval on this revaluation on 18.07.1997.

Included as well in this caption, the shareholders' transitory fund (S.T.F.) amounting to US\$2.53 Million at 2006 year-end. It represents the excess of pledged guarantee funds over the shortfall of provisions for credit losses which will be allocated to enhance the core capital of the Bank.

Consequently, the Bank's net worth, together with the shareholders' transitory fund, amounted to LBP54,890 Million or US\$36.4 Million at December 31, 2006 (LBP51,014 Million or US\$33.84 Million in 2005).

The following figures outline the Bank's capital base components and development since 2004:

Millions of LBP	2006	2005	2004
Capital/Reserves/Net Income for the year/Retained Earnings	8,345	7,475	6,994
Cash contribution to Capital (in US\$)	21,444	21,444	14,660
a- Tier I Capital	29,789	28,919	21,654
Capital gain on assets	21,288	19,095	19,095
b- Tier II Capital	21,288	19,095	19,095
Shareholders' Equity before S.T.F.(a + b)	51,077	48,014	40,749
Shareholders' transitory funds (S.T.F.)	3,813	3,000	8,210
Shareholders' Equity after S.T.F.	54,890	51,014	48,959

The ratios indicated here under are an indication of the financial strength of the Bank in respect of its level of capitalization.

	2006	2005	2004
Ratio Equity after S.T.F. to Assets	9.92%	10.23%	10.01%
Solvency ratio	23.71%	24.88%	20.05%
Gearing ratio (deposits to equity)	9.60	9.17	10.65

III - APPLICATION OF FUNDS

Millions of LBP	2006	2005
Liquid Assets	340,289	307,779
Loans and Advances	170,703	152,651
Other financial accounts	8,802	13,883
Permanent assets	33,420	24,415

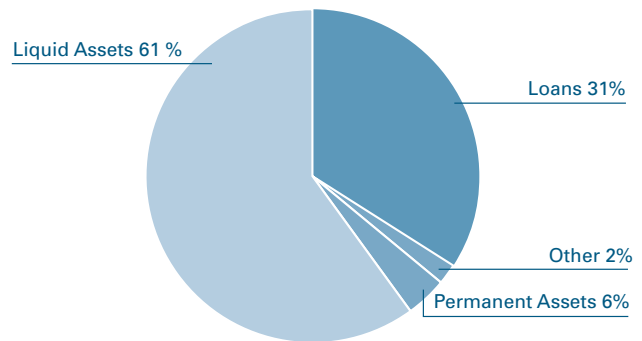
BIT's assets are composed as follows:

-*Liquid assets*: 61.5% (LBP340 Billion) out of which 23.5% (LBP130 Billion) are held in cash & deposits with banks, 15.2% (LBP84 Billion) in LBP treasury bonds, also 14% (LBP77.5 Billion) in Lebanese Treasury bonds in US\$. 2% (LBP10.7 Billion) are held in LBP Certificates of Deposits and 4% (LBP22.2 Billion) in US\$ Certificates of Deposits.

- *Loan portfolio*: around 31% (LBP170.7 Billion).

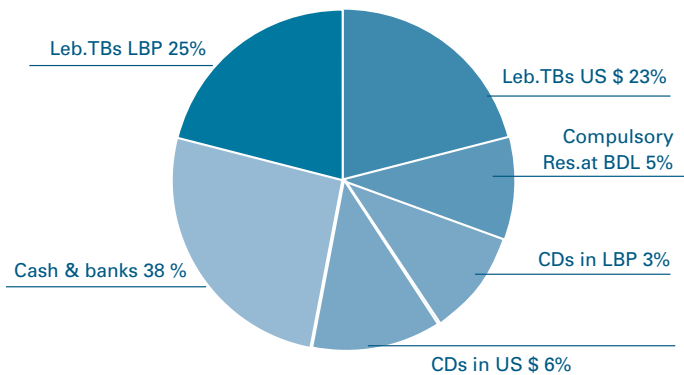
- *Permanent Assets*: 6% (LBP33.4 Billion) representing owned premises, computer equipments,...

Application of funds 2006

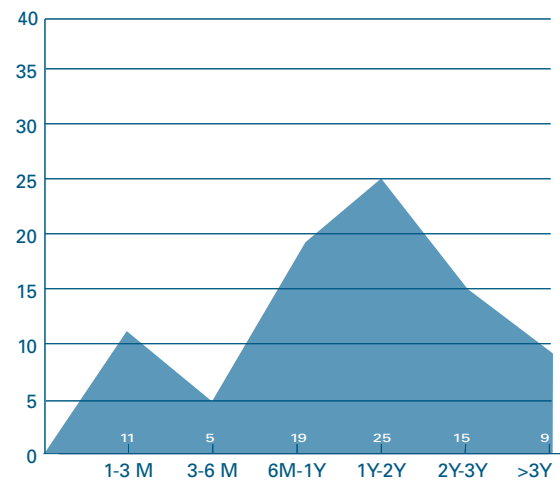


a - Liquid Assets:

Breakdown of Liquid Assets

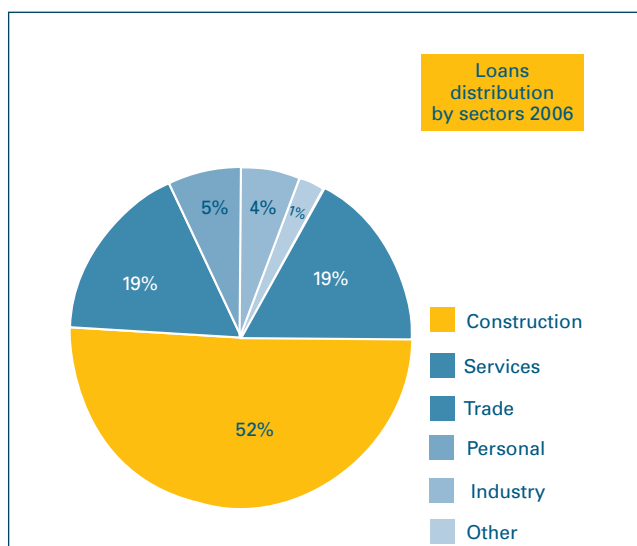
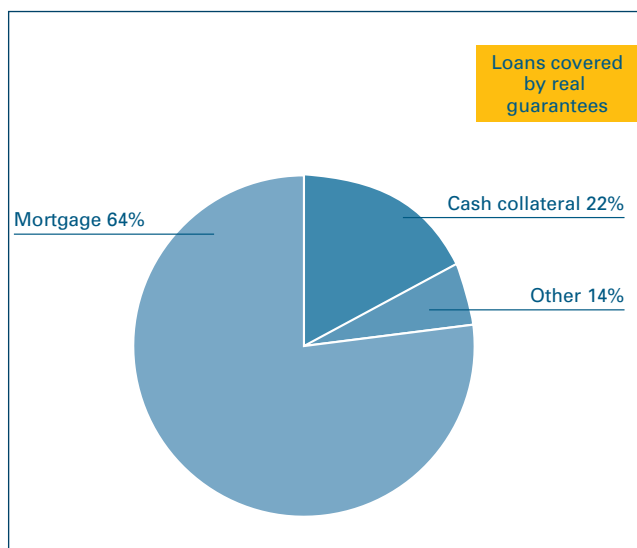


Lebanese TBs in LBP Billions of LBP



b - Loans and Advances:

They are allocated at December 31, 2006 for 95.7% loans in Foreign Currency, and for only 4.3% loans in Lebanese Pound. Within loans and advances to customers, the majority (85.6%) are covered by real guarantees (mortgage, cash collateral,...), the remaining, 14.4%, are covered by personal guarantees.



The provisions for bad debts are set up against specific accounts to offset the losses that may result therefrom. These provisions are determined on the basis of an assessment of credit risks updated regularly. This credit loss assessment is made by three different parties:

1. The Internal Audit department of the Bank which is a dependent party and performs its credit risk assessment regularly every 3 months.
2. The external Auditors Messrs. Deloitte & Touche who perform their credit risk assessment while conducting their annual audit of the Bank's accounts. And,
3. The Banking Control Commission which is an independent institution acting as a regulatory and as a control body on behalf of the Central Bank of Lebanon.

The Bank has complied with the risk assessment of all above parties and maintains therefore adequate provisions covering 100% the required provisions by these parties. The Bank has an excess amount in provisions for bad debts for approximately US\$2.53 Million (LBP3.8 Billion) as at 31 December 2006 which is reflected under Shareholders' Transitory Fund.

The credit loss assessment is made based on objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is based on the value of real guarantees supporting the debt, discounted to 60% of its estimated value. Any impairment loss being assessed based on the difference between the asset carrying value and the recoverable amount estimated as indicated above is provided for and included in the determination of the results of operations. Starting fiscal year 2001 and in conformity with International Accounting Standard #39, the impairment loss indicated above would be assessed based on the difference between the asset carrying value and the present value of future anticipated cash flows, taking into consideration the liquidation value of the guarantee in hand. There was no impact resulting from the application of this principle on the December 31, 2006 financial statements of the Bank.

As to the shareholders' transitory fund referred to above, and amounting to US\$2.53 Million at 2006 year-end, it represents the excess of pledged guarantee funds over the shortfall of provisions for credit losses which will be allocated to enhance the core capital of the Bank.

IV - OPERATING RESULTS

BIT's operating policy is a very conservative one. Keeping at December 31, 2006 a risk based capital ratio of 23.7% and a liquidity ratio of 77.9% reduces in fact the profitability of the Bank. In spite of these ratios, BIT has realized during the last three years an average yearly net income before provision for doubtful debts of US\$1.73 Million. Its potential in this respect is much higher.

In Thousands of US\$	2006	2005	2004
Net interest income	6,606	8,231	7,140
Net financial revenues before provision for doubtful debts	8,423	9,375	8,212
Net income before provision for doubtful debts	1,345	1,905	1,939

In 2004, and in the context of the restructuring process taking place at the Bank, Management has reclassified some of the loans in the amount of US\$17 Million approximately under substandard caption and accordingly has provided for related interest income.

In 2006, Net Income has diminished by US\$560,000 as a result of a decrease of Net Financial Revenues by 10.15% and an increase of overhead by 1.34%. The drop of Net Income was compensated by an increase of the write-backs realized by the Bank during 2006, amounting to US\$600,000.

Therefore, the main profitability ratios of the Bank are as follow:

	2006	2005	2004
R.O.A.	0.39%	0.58%	0.62%
Return on paid up capital	7.97%	14.93%	15.67%
Net Margin	15.97%	20.32%	23.61%
Overhead to revenue	31.54%	31.97%	32.56%
Cost of resources to revenue	72.06%	64.24%	66.60%

It is the Bank's policy that a big portion of the yearly profits be allocated to provisions for credit losses; in this respect, an amount of US\$1,402,000 relating to year 2005, was transferred from related year profits to the provision account. However, in year 2006, a net write-back amount of US\$148,300 has been added to the year profits from the provision account.

The allocation of profits between provisions for credit losses and net income is to a large extent driven to strengthen the bank's provisions. It should be noted that the provisions for credit losses are charged to P & L in order to release by the same amount, the shareholders' account held to cover the probable shortfall in the provision for credit losses. Accordingly, the released provisions come to add up to the existing shareholders' equity at the end of each respective year.

**Consolidated Financial
Statements and
Auditor's Report
year ended
December 31,2006**

- **Independent Auditor's Report**
- **Consolidated Balance Sheet**
- **Consolidated Income Statement**
- **Consolidated Statement of Cash Flows**
- **Consolidated Statement of Changes in Shareholders' Equity**
- **Notes to the Consolidated Financial Statements**



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Banque de l'Industrie et du Travail S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of Banque de l'Industrie et du Travail S.A.L. and subsidiary (the Group), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, within the limitations imposed by the existing banking laws in Lebanon. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 17, 2007

Consolidated Balance Sheet

D e c e m b e r 3 1 ,

ASSETS	Notes	2006 LBP'000	2005 LBP'000
Non-interest earning compulsory reserves	6	15,484,443	16,123,131
Cash and due from banks	7	16,224,033	12,887,616
Placements with banks and financial institutions	7	113,981,985	81,014,787
Available-for-sale securities	8	4,302,395	1,351,568
Held-to-maturity securities	8	191,654,835	201,696,936
Loans and advances	9	170,703,342	152,650,449
Banks' acceptances	10	440,229	640,392
Other assets	11	7,002,514	7,947,595
Assets acquired in satisfaction of debts	12	10,089,003	4,403,523
Property and equipment	13	23,331,256	20,011,624
Total Assets		553,214,035	498,727,621

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:

Guarantees and standby letters of credit	26	26,362,900	21,340,850
Documentary and commercial letters of credit	26	985,259	924,679
Fiduciary deposits	27	35,113,183	29,527,703

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

December 31,

LIABILITIES	Notes	2006 LBP'000	2005 LBP'000
Banks and financial institutions:			
Demand deposit		29,115	30,900
		29,115	30,900
Customers' deposits and other credit balances:	14		
Demand deposits		20,173,683	15,189,993
Time deposits		25,352,135	7,755,397
Saving accounts		357,627,184	342,150,034
Related parties		46,369,455	41,277,798
Pledged accounts		40,873,857	33,789,243
		490,396,314	440,162,465
Miscellaneous creditors	15	2,950,701	2,914,329
Engagements by acceptances	10	440,229	640,392
Regularization accounts and other liabilities	16	3,608,773	3,007,291
Provisions	17	899,021	958,611
		498,295,038	447,683,088
Total liabilities		498,324,153	447,713,988
Shareholders' account	9	3,812,862	3,000,000
EQUITY			
Capital	18	4,000,000	4,000,000
Shareholders' cash contribution to capital	19	21,444,188	21,444,188
Reserves	20	3,212,055	2,730,958
Revaluation surplus	21	21,288,371	19,094,461
Cumulative change in fair value of available-for-sale securities	8	62,086	262,929
Net income for the year		1,070,320	481,097
Total equity		51,077,020	48,013,633
Total Liabilities and Equity		553,214,035	498,727,621

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	Year Ended December 31,	
		2006 LBP'000	2005 LBP'000
Interest income:			
Loans and advances		10,605,635	9,150,186
Non performing loans		875,846	4,723,952
Loans to related parties		369,086	751,889
Securities		18,469,769	16,471,632
Deposits with Banks		5,325,388	3,603,896
		35,645,724	34,701,555
Interest expenses:			
Customers' deposits and credit balances from customers	22	23,452,122	20,537,204
Deposits from related parties		2,218,872	1,513,015
Deposits from banks		16,900	243,008
		25,687,894	22,293,227
Net interest income		9,957,830	12,408,328
Other financial revenues:			
Commissions, fees and other revenues, net	23&27	1,643,012	1,569,226
Foreign exchange gain, net		156,470	155,247
Gain on sale of properties acquired in satisfaction of debts		940,435	-
Net financial revenues		12,697,747	14,132,801
Other expenses:			
Salaries and related charges	28	7,165,452	7,022,858
General operating expenses	28	3,456,891	3,491,541
Depreciation	28	619,525	578,741
		11,241,868	11,093,140
Income, before provisions		1,455,879	3,039,661
Provision for credit losses (less write-back)	9	223,495	(2,113,218)
Net Income, before income tax		1,679,374	926,443
Income tax expense	15	(609,054)	(445,346)
Net income for the year	29	1,070,320	481,097

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Shareholders' Equity

	Shareholders' Cash			Revaluation Surplus	cumulative Change in Fair Value Available-for-sale Securities	Retained Earnings	Net income for the Year	Total Equity
	Capital	Contribution to Capital	Reserves					
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance - December 31, 2004 (Restated)	4,000,000	14,660,438	2,259,829	19,094,461	262,929	523,866	(52,737)	40,748,786
Net income for the year 2005	-	-	-	-	-	481,097	-	481,097
Comprehensive income 2005	-	-	-	-	-	481,097	-	481,097
Allocation of 2004 net income	-	-	471,129	-	-	(523,866)	52,737	-
Shareholders' cash contribution to capital	-	6,783,750	-	-	-	-	-	6,783,750
Balance - December 31, 2005	4,000,000	21,444,188	2,730,958	19,094,461	262,929	481,097	-	48,013,633
Change in fair value of available-for-sale securities (net of deferred tax)	-	-	-	-	(200,843)	-	-	(200,843)
Net income for the year 2006	-	-	-	-	-	-	1,070,320	1,070,320
Comprehensive income 2006	-	-	-	-	(200,843)	-	1,070,320	869,477
Allocation of 2005 net income	-	-	481,097	-	-	(481,097)	-	-
Assets revaluation surplus	-	-	-	2,193,910	-	-	-	2,193,910
Balance - December 31, 2006	4,000,000	21,444,188	3,212,055	21,288,371	62,086	-	1,070,320	51,077,020

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

	Year Ended December 31,	
	2006	2005
	LBP'000	LBP'000
Cash flows from operating activities:		
Net income for the year	1,070,320	481,097
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for credit losses (less write-back)	223,495	2,113,218
Depreciation of property and equipment and provision for assets acquired in satisfaction of debts	619,525	578,741
Accretion of Lebanese treasury bills at year-end	-	(113,427)
(Gain)/ Loss on sale of properties acquired in satisfaction of debts	(940,435)	1,693
(Decrease)/ increase in provisions	(59,590)	100,199
Increase/(decrease) other assets	945,081	(1,470,123)
Increase in regularization accounts and other liabilities	601,482	164,319
Net cash provided by operating activities	2,459,878	1,855,717
Cash flows from investing activities:		
Proceed from sale of securities	6,890,431	(41,968,407)
Placements with banks and financial institutions	(32,967,198)	(1,209,355)
Loans and advances	(23,526,768)	(5,064,266)
Proceeds from sale of foreclosed assets	972,314	138,690
Property and equipment	(1,399,364)	(426,566)
Net cash used in investing activities	(50,030,585)	(48,529,904)
Cash flows from financing activities:		
Customers' deposits and other credit balances	50,270,221	7,132,658
Non-interest earning compulsory reserves	638,688	33,975,023
Banks and financial institutions	(1,785)	7,945
Shareholders' cash contribution to capital	-	6,783,750
Net cash provided by financing activities	50,907,124	47,899,376
Net increase in cash and cash equivalents	3,336,417	1,225,189
Cash and cash equivalents — Beginning of year	11,606,241	10,381,052
Cash and cash equivalents — End of year	14,942,658	11,606,241

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

Year Ended December 31, 2006

1. OBJECTIVE AND ACTIVITIES OF THE BANK

Banque de l'Industrie et du Travail S.A.L. was established on October 28, 1960 and registered in the Lebanese commercial register under No. 9849 and in the list of banks published by the Central Bank of Lebanon under No. 48. The Bank is owned to the extent of 52.22% by Al Bustania S.A.L. and provides banking services through a network of twelve branches in the different regions of Lebanon. The Bank headquarter is located in Beirut, Central District.

The bank has a wholly owned real estate subsidiary (SIPC) where his headquarters are located..

2. BASIS OF PREPARATION

A. Statement of Compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

During the year 2006, the group adopted the amendments to IAS39 *financial guarantees* as mentioned in Note 3J. This amendment had not been applied by the group in prior periods and consequently had a negative impact on 2006 reported profits by LBP63million.

B. Basis of Measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

Lands and buildings acquired before 1993 measured at fair value based on 1996 market value, adjusted in 2006 for the Bank's headquarters.

Available-for-sale financial assets are measured at fair value.

C. Functional and Presentation Currency:

These consolidated financial statements are presented in Lebanese Pounds which is the Group's reporting currency. However, the currency of the economical environment in which the group operates is the U.S. Dollar.

D. Use of Estimates and Judgments:

The preparation of financial statements requires management to make hypothesis, judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates are detailed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are summarized as follows:

A. Basis of Consolidation:

The consolidated financial statements of Banque de l'Industrie et du Travail S.A.L. include the accounts of the Bank and its subsidiary company, the Société Immobilière pour la Construction (SIPC) S.A.L. fully owned by the Bank(The Group). Control over a company is achieved when the Bank has the power to govern the financial and operating policies of the investee company. The business activity of (SIPC) is the ownership of a building of seven floors located in the Banks' street in Beirut Central District, where the Bank headquarters are located.

Inter-company balances and transactions have been eliminated in the consolidated financial statements.

B. Foreign Currencies:

Transactions in foreign currencies, including those involving revenues and expenses, are recorded at the prevailing exchange rates. Monetary assets and liabilities denominated in foreign currencies are retranslated into Lebanese Pounds at the market rates of exchange prevailing at the balance sheet date as published by the Central Bank of Lebanon. Translation gains and losses are included in the income statement.

Cash flows provided and used in foreign currencies under various activities as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates. Cash and cash equivalents at the beginning of the year are converted at prior year closing exchange rates.

C. Financial assets and Liabilities:

Recognition and derecognition:

The Group initially recognizes loans and advances and deposits on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset.

Offsetting:

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair Value Measurement:

The determination of fair values of financial assets and

financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets plus incremental direct transaction costs. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Impairment of financial assets:

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset (or a group of financial assets) not carried at fair value through profit or loss is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss such as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, impairment is not reversed where the available-for-sale asset is an equity instrument reflected at cost.

D. Investment Securities:

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

Held-to-maturity Securities:

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the straight line method which approximates the effective interest method.

Available-for-sale securities:

Available-for-sale investments are non derivative investments that are not designated as another category of financial assets. Equity securities classified by the Group as available-for-sale that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value and unrealized gains or losses are included in equity.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Due to the non-availability of the financial information about fair value in certain situations, equity securities, which represent less than 20% of the total voting rights, are presented at cost less any provision for other than temporary decline in the value of the security which is

included in the income statement.

E. Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are measured at amortized cost less unearned interest and provision for credit losses where applicable.

Bad and doubtful debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

Funds pledged by the shareholders to cover shortfall in provision for credit losses are deducted from the loans and advances portfolio in the financial statements.

F. Property and Equipment:

Property and equipment except for land and buildings acquired in Lebanon after 1997 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Land and building acquired before 1997 are stated at their revalued amounts, less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Equity".

Depreciation of property and equipment, other than land and advance payments on capital expenditures is calculated systematically using the straight-line method over the estimated useful lives of the related assets as follows:

Owned premises	2 ¹ / ₂ %
Leasehold improvements	20%
Furniture and fixtures	9%
Computer equipment	20%
Vehicles	15%

G. Impairment of Tangible and Intangible Assets:

At each balance sheet date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset or the cash generating units to which the asset belongs is estimated in order to determine the extent of impairment loss, if any.

Recoverable amount is the higher of fair value, less costs to sell and value in use.

Value in use represents the estimated future cash flows generated by the continuous of the asset discounted to their present value using an appropriate discount rate.

If the recoverable amount of an asset is estimated less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount, and an impairment loss is recognized in the income statement unless the asset has been revalued, then the impairment loss is deducted from the revaluation surplus.

If an asset's impairment loss booked in previous periods is written back, the asset's book value is raised to the extent of its recoverable amount providing that the raise does not exceed the book value in case there are no impairments for previous periods. The write back is recognized in the income statement unless the asset has been revalued, then the impairment loss is added to the revaluation surplus.

H. Employees' End-of-Service Indemnities:

Contributions paid regularly by the Group to the Lebanese National Social Security Fund on account of employees' end-of-service indemnities are computed on

the basis of 8.5% of the actual employees' earnings. However, upon completion of twenty years of service or upon termination of employment, and for those employees wishing to settle their account with the Fund, the related indemnities are computed on the basis of the average of the last 12 salaries, times the number of years of service, and differences between such amounts due and amounts already paid computed on the basis of 8% are settled to the Fund at that time. The Group follows the policy of accruing for the abovementioned differences on a current, non-discounted basis.

I. Revenue and Expense Recognition:

Interest income and expense are recognized on a time proportion basis, taking account of the principal outstanding and the rate applicable except for bad and doubtful loans recognized on cash basis and for which interest income is only recognized upon realization. Interest income and expense include the amortization discount or premium. Other revenues are recognized when contractually earned.

J. Financial Guarantees:

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and subsequently carried at the higher of the amount of this fair value and the amount of the present value of expected payments (when a payment under the guarantee has become probable). Financial guarantees are included under liabilities.

K. Income Tax:

Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Income tax represents the Current tax due to the fact that taxable profit does not include temporary differences.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date. Income tax provision is reflected in the balance sheet net of tax previously settled in the form of withholding tax on certain interest revenues.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Key hypothesis related to the future and the other principal sources of uncertainty related to estimates as at the closing date which require management to make judgments, could affect the reported amounts of assets and liabilities. These judgments and estimates are based on historical experience as well as other factors.

Critical accounting judgments made in applying the Group's accounting policies include the following as detailed in Note 3.

Estimation Uncertainty

Allowance for Credit Losses:

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment. This method applies on classified loans and advances and factors taken into consideration in estimating the allowance for credit losses include the counterparty's credit limit excess, the counterparty's ability to generate cash flows sufficient to settle his advances and the net realizable value of collateral. Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar characteristics.

Fair Value of Financial Assets

The determination of fair value of financial assets unquoted in an active market requires the use of valuation techniques as described in Note 3C.

Fair Value of Financial Guarantees Contracts:

The valuation of fair value of issued financial guarantees contracts, in the application of the accounting policy described in Note 3J, consists of deferring earned commission on these non covered contracts until their maturities.

Judgments in Applying the Group's Accounting Policies

Particular judgments made by management in applying the Group's accounting policies include:

Financial Asset Classification:

The Group's accounting policies states that investment securities can be classified into different categories based on specific conditions. In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as described in Note 3E.

5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC) that are relevant to the Group's operations but not yet effective for the year ended December 31, 2006 are the following:

IFRS 7 "Financial Instruments: Disclosures"

Amendments on IAS 1: Disclosures on capital.

The adoption of IFRS 7 and the amendment on IAS 1 are effective from January 1, 2007 and require the Group to disclose information on the impact of financial instruments on its financial position and its performance in addition to qualitative and quantitative information on the risks to which the group is exposed as well as on capital.

6. NON-INTEREST EARNING COMPULSORY RESERVES

Banking laws and regulations in Lebanon require banks to maintain cash compulsory reserves on customers' deposits in Lebanese Pounds with the Central Bank of Lebanon in the basis of 25% and 15% of the weekly average demand deposits and term deposits respectively. Therefore, compulsory reserves required to be maintained as of December 31, 2006 and 2005 amounted to approximately LBP14.5billion and LBP15.6billion respectively. In this connection, actual cash compulsory reserves in the amount of approximately LBP15.5billion and LBP16.1billion were maintained in the current account with the Central Bank of Lebanon at December 31, 2006 and 2005 respectively.

7. CASH AND DUE FROM BANKS

	D e c e m b e r 3 1 ,	
	2006 LBP'000	2005 LBP'000
(a) Cash and Current Accounts with Banks:		
Cash on hand	5,306,555	4,426,181
Current accounts with Central Bank of Lebanon	4,531,230	3,965,405
Demand deposits with commercial banks	4,452,708	3,214,655
Collateral accounts	1,281,375	1,281,375
Checks for collection	652,165	-
	16,224,033	12,887,616

Collateral accounts represent accounts deposited with correspondents and pledged to their favor against banking facilities to finance documentary credit transactions and other banking operations.

	D e c e m b e r 3 1 ,	
	2006 LBP'000	2005 LBP'000
(b) Interest Earning Deposits with Banks and financial institutions:		
Time deposits with Central Bank of Lebanon	57,911,936	54,315,130
Time deposits with banks and financial institutions	56,070,049	26,699,657
	113,981,985	81,014,787

Notes to the Consolidated Financial Statements

Interest earning deposits with banks and financial institutions mature according to the following schedules:

D e c e m b e r 3 1 , 2 0 0 6

	LBP LBP'000	Average Interest Rate %	Foreign Currencies Equivalent in LBP LBP'000	Averag Interest Rate %	Total LBP'000
1st quarter 2007	2,000,000	3.67	111,224,891	5.41	113,224,891
2nd half 2007	3,344	6.00	753,750	6.99	757,094
	2,003,344		111,978,641		113,981,985

D e c e m b e r 3 1 , 2 0 0 5

	LBP LBP'000	Average Interest Rate %	Foreign Currencies Equivalent in LBP LBP'000	Averag Interest Rate %	Total LBP'000
1st half 2006	6,100,000	4.00	44,460,131	4.05	50,560,131
2nd half 2006	3,156	6.00	753,750	2.94	756,906
Year 2007	-	-	12,361,500	5.62	12,361,500
Year 2008	-	-	16,582,500	5.28	16,582,500
Year 2009	-	-	753,750	6.96	753,750
	6,103,156		74,911,631		81,014,787

Obligatory deposits with Central Bank of Lebanon are held in accordance with local banking laws and regulations to the extent of 15% of total customers' deposits in foreign currencies and certificates of deposit and loans obtained from non-resident financial sector. The balance of these obligatory deposits aggregated to LBP36.9million as at December 31, 2006 (LBP31.5million as at December 31, 2005).

Accrued interest receivable on bank accounts and deposits amounted to LBP579million as at December 31, 2006 (LBP365million as at December 31, 2005) reflected under "Other Assets".

Notes to the Consolidated Financial Statements

8. Securities

(a) Available-for-Sale Securities:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Equity securities	1,358,815	1,351,568
Lebanese government Eurobonds – US Dollars	2,770,333	-
Certificates of deposit issued by Central Bank of Lebanon – USD	173,247	-
	4,302,395	1,351,568

Equity securities classified available-for-sale securities consist of the following:

	D e c e m b e r 3 1 , 2 0 0 6				
	Number of Shares	Book Value LBP'000	Fair Value LBP'000	Change in Fair Value LBP'000	December 31, 2005 LBP'000
KAFALAT S.A.L.	500	50,000	50,000	-	50,000
Banque Nationale pour le Développement Industriel et Touristique S.A.L.	11,000	1,000	1,000	-	1,000
Banque de l'Habitat S.A.L.	83,935	662,180	662,180	-	662,180
Société Financière du Liban S.A.L.	16,000	800	159,990	159,190	159,990
Société Financière et Immobilière du Port de Beyrouth S.A.L.	11,789	1,897	1,897	-	1,897
Compagnie de Gestion et l'Exploitation du Port de Beyrouth S.A.L.	159,960	11,706	11,706	-	11,706
Starco Center	1,976	7,646	7,646	-	7,646
BMB Technology and Telecommunication Investment Co.	1,000	153,765	153,765	-	153,765
Berytech	500	75,000	75,000	-	75,000
Arab Financial Services Company (E.C.)	10,000	310	150,448	150,138	150,448
Others		85,183	85,183	-	77,936
		1,049,487	1,358,815	309,328	1,351,568

Lebanese Government Eurobonds classified available-for-sale are composed of the following:

	Interest Rate %	Maturity	Nominal Value USD	Book Value USD	Fair Value USD	Change in Fair Value USD
	7.375	April 14, 2014	1,000,000	1,000,000	915,400	(84,600)
	8.250	April 12, 2021	1,000,000	1,000,000	922,300	(77,700)
Total			2,000,000	2,000,000	1,837,700	(162,300)
Counter value in LBP'000			3,015,000	3,015,000	2,770,333	(244,667)

Notes to the Consolidated Financial Statements

Certificates of deposit in U.S. Dollars issued by Central bank of Lebanon classified available-for-sale are composed of the following:

	Interest Rate %	Maturity	Nominal Value USD	Book Value USD	Fair Value USD	Change in Fair Value USD
	10.00	April 25, 2015	100,000	109,363	114,923	5,560
Total in USD			100,000	109,363	114,923	5,560
Counter value in LBP'000			150,750	164,865	173,247	8,382

(b) Held-to-Maturity Securities:

D e c e m b e r 3 1 ,

	2006 LBP'000	2005 LBP'000
Lebanese Government Eurobonds – USD	74,782,997	78,080,929
Certificates of deposit issued by Central Bank of Lebanon – LBP	10,652,774	19,546,003
Certificates of deposit issued by Central Bank of Lebanon – USD	22,044,290	21,975,417
Certificates of deposit issued by Lebanese banks – USD	-	3,943,502
Discounted treasury bills (net of unearned interest)	-	1,072,520
Coupon treasury bills (net of discounts and premiums)	84,174,774	77,078,565
	191,654,835	201,696,936

Lebanese Government Eurobonds – US Dollars classified held-to-maturity are composed of the following:

Maturity	Coupon Rate %	Nominal Value USD	Amortized Cost		Fair Value		Change in Fair Value	
			2006 USD	2005 USD	2006 USD	2005 USD	2006 USD	2005 USD
April 24, 2006	-	8,000,000	-	8,002,180	-	8,093,000	-	90,820
August 20, 2006	-	9,352,000	-	9,493,518	-	9,579,955	-	86,437
October 31, 2007	8.625	500,000	508,239	518,125	500,697	516,562	(7,542)	(1,563)
June 20, 2008	7.375	5,000,000	4,992,208	4,986,708	4,920,935	5,071,875	(71,273)	85,167
August 6, 2008	10.125	1,000,000	1,000,000	1,000,000	1,022,949	1,079,375	22,949	79,375
October 6, 2009	10.250	4,000,000	4,074,250	4,101,250	4,147,129	4,445,000	72,879	343,750
December 14, 2009	7.000	5,500,000	5,491,017	5,487,937	5,264,712	5,527,500	(226,305)	39,563
March 5, 2010	7.125	3,500,000	3,494,203	3,491,056	3,350,474	3,521,875	(143,729)	30,819
May 20, 2011	7.875	5,000,000	4,980,190	4,975,619	4,839,191	5,168,750	(140,999)	193,131
September 7, 2012	7.750	8,000,000	7,767,430	7,726,389	7,614,132	8,180,000	(153,298)	453,611
April 14, 2014	7.375	7,000,000	6,987,894	-	6,406,605	-	(581,289)	-
January 19, 2016	8.500	2,000,000	2,010,976	2,012,195	1,925,773	2,087,500	(85,203)	75,305
April 12, 2021	8.250	8,352,000	8,300,889	-	7,702,815	-	(598,074)	-
		67,204,000	49,607,296	51,794,977	47,695,412	53,271,392	(1,911,884)	1,476,415
Counter Value LBP'000		101,310,030	74,782,997	78,080,929	71,900,832	80,306,623	(2,882,165)	2,225,694

Notes to the Consolidated Financial Statements

Certificates of deposit issued by Central Bank of Lebanon in LBP classified held-to-maturity are composed of the following:

Maturity	Coupon Rate %	Nominal Value LBP'000	Amortized Cost		Fair Value		Change in Fair Value	
			2006 LBP'000	2005 LBP'000	2006 LBP'000	2005 LBP'000	2006 LBP'000	2005 LBP'000
2nd quarter 2006	9.125	4,000,000	-	4,000,000	-	4,242,184	-	242,184
2nd half 2006	12.320	5,000,000	-	5,000,000	-	5,157,863	-	157,863
2010	11.300	11,000,000	10,652,774	10,546,003	11,437,433	11,325,413	784,659	779,410
			10,652,774	19,546,003	11,437,433	20,725,460	784,659	1,179,457

Certificates of deposit in U.S. Dollars issued by Central Bank of Lebanon classified held-to-maturity are composed of the following:

Maturity	Interest Rate %	Nominal Value USD	Amortized Cost USD	Fair Value USD	Change in Fair Value USD
April 25, 2015	10	15,000,000	14,623,078	15,834,476	1,211,398
Counter Value in LBP'000		22,612,500	22,044,290	23,870,472	1,826,182

Notes to the Consolidated Financial Statements

Certificates of deposit that mature during 2015 were purchased with the option of reselling them to the Central Bank of Lebanon during 2012 at a price of 91.63%. The Bank decided not to sell these certificates and hold them until maturity.

Accrued interest receivable on securities amounted to LBP2.02billion as at December 31, 2006 (3.92billion as at December 31, 2005) reflected under "Other Assets".

The Lebanese treasury bills in Lebanese Pounds outstanding at December 31, 2006 and December 31, 2005 carry the following maturities in terms of remaining period to maturity date:

Period	December 31, 2006			
	Net Book Value	Fair Value	Change in Fair Value	Weighted Average interest Rates
	LBP'000	LBP'000	LBP'000	%
First quarter 2007	11,014,778	11,105,479	90,701	8.58
Second quarter 2007	4,800,036	4,839,745	39,711	8.64
Second half 2007	19,554,194	19,756,331	202,137	8.67
2008	25,078,759	25,430,418	351,659	9.19
2009	14,996,928	14,858,364	(138,564)	9.34
2010	8,730,079	9,160,497	430,418	11.30
	84,174,774	85,150,834	976,062	

Period	December 31, 2005			
	Net Book Value	Fair Value	Change in Fair Value	Weighted Average interest Rates
	LBP'000	LBP'000	LBP'000	%
First quarter 2006	2,072,517	2,078,520	6,003	7.03
Second quarter 2006	999,974	1,007,441	7,467	7.79
Second half 2006	6,000,653	6,032,737	32,084	8.05
2007	35,334,677	35,914,388	579,711	8.64
2008	25,039,522	25,269,381	229,859	9.18
2010	8,703,742	9,071,327	367,585	11.3
	78,151,085	79,373,794	1,222,709	

Discounted ordinary treasury bills are bought net of discount interest and stated in the balance sheet at their par value, less related unearned interest amounting to LBP5million as at December 31, 2005.

The coupon treasury bills carry two, three and five year maturity periods, and related interest is paid semi-annually. Accrued interest receivable amounting to LBP2.25billion as at December 31, 2006 (LBP1.99billion as at December 31, 2005) is included under "Other Assets".

Lebanese treasury bills may be discounted at the Central Bank of Lebanon using prevailing market rates. It is to be noted that most of the Bank's deposits in Lebanese Pounds have been invested in short-term Lebanese treasury bills.

Notes to the Consolidated Financial Statements

9. LOANS AND ADVANCES

This caption comprises the following:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Short term loans and advances to customers	122,934,360	87,408,990
Medium and long term loans and advances to customers	8,166,830	7,683,078
Discounted bills (net of unearned interest)	1,023,982	746,684
Loans and advances to sister companies and directors	2,111,036	10,656,432
Substandard loans (net of unearned interest)	18,485,588	25,328,242
Bad and doubtful loans (net of unearned interest)	38,211,310	46,830,306
Less: Provision for credit losses	(8,035,954)	(12,996,610)
Less: Guarantee funds	(12,193,810)	(13,006,673)
	170,703,342	152,650,449

Loans and advances to customers are allocated in terms of guarantees as follows:

	D e c e m b e r 3 1 , 2006		D e c e m b e r 3 1 , 2005	
	Short Term	Long Term	Short Term	Long Term
	LBP'000	LBP'000	LBP'000	LBP'000
Clean overdrafts	4,151,745	-	11,213,250	-
Loans against personal guarantees	12,597,758	2,134,295	11,927,356	-
Loans against mortgage of real estate	65,243,704	6,032,535	39,858,021	6,582,500
Loans against cash collateral	24,823,186	-	22,716,683	1,098,420
Loans against bills and shares	14,844,443	-	737,233	-
Other loans	1,273,524	-	956,447	2,158
	122,934,360	8,166,830	87,408,990	7,683,078

Loans and advances to sister companies and directors are secured by pledged funds in the aggregate of LBP2.11billion (LBP3.17billion in 2005).

Accrued interest receivable on loans and advances as at December 31, 2006 amounted to LBP655million (LBP156million in 2005) and is reflected under "Other Assets".

Loans and advances as at December 31, 2006 are allocated between residents and non-residents to the extent of 92% and 8% respectively.

Notes to the Consolidated Financial Statements

The loans and advances portfolio is allocated among the various economic sectors as follows:

Economic Sector	D e c e m b e r 3 1 ,	
	2006	2005
	%	%
Contracting and construction	52	48
Commerce and trade	33	33
Personal	5	5
Other sectors	10	14
	100	100

The loans and advances to customers portfolio reflects a concentration in the distribution of loans among debtors and in specific economic sectors.

During 2006 year-end, the Bank has reached an agreement to acquire assets in satisfaction of debts. The Bank's management has reversed LBP875million of the total unearned interest related to these accounts to the 2006 income statement. Up to the date of issuance of these financial statements those assets were not yet registered in the Bank's name.

During 2006, the Bank has written-off doubtful accounts in the amount of LBP4.7billion against provisions for credit losses and transferred the booking to the off-balance sheet accounts.

The movement of unearned interest on bad and doubtful loans and substandard loans during 2006 and 2005, was as follows:

	2 0 0 6		2 0 0 5	
	Doubtful Loans LBP'000	Substandard Loans LBP'000	Doubtful Loans LBP'000	Substandard Loans LBP'000
Balance — Beginning of year	66,717,468	6,351,873	55,603,044	6,469,060
Unearned interest for the year	16,065,331	443,529	13,878,934	3,140,371
Write-backs during the year	(791,617)	(84,229)	(1,466,394)	(3,257,558)
Write-offs during the year	(264,064)	(95,277)	(1,298,116)	-
Unearned interest on substandard transferred to doubtful loans	1,974,707	(1,974,707)	-	-
Balance — End of year	83,701,825	4,641,189	66,717,468	6,351,873

Effective January 1, 1991, banks were requested by the Banking Control Commission to stop accruing interest on doubtful debts and to disclose such amounts of interest, had it been accrued for. Also, effective January 1, 1999 banks were requested by the Central Bank of Lebanon to stop accruing interest on substandard loans.

Notes to the Consolidated Financial Statements

The movement in the provision for credit losses in 2006 and 2005 consists of the following:

	2006	2005
	LBP'000	LBP'000
Balance — Beginning of year	12,996,610	11,810,394
Provision set up during the year	957,251	2,390,178
Write backs during the year	(1,180,746)	(276,960)
Provision written-off	-	(500,937)
Provision written-off and transferred along with the debt balances to the off-balance sheet	(4,740,017)	(426,065)
Effects of exchange rates changes	2,856	-
Balance — End of year	8,035,954	12,996,610
Pledged guarantee funds — Beginning of year	13,006,673	7,796,728
Funds transferred from/to shareholders' account	(812,863)	5,209,945
Pledged guarantee funds — End of year	12,193,810	13,006,673
Total provision for credit losses and guarantee funds	20,229,764	26,003,283
Bad and doubtful loans (net of unearned interest)	38,211,310	46,830,306

The excess of bad and doubtful loans in 2006 and 2005 over provision for credit losses and guarantee funds is secured by real guarantees and mortgages.

Most of bad and doubtful loans have been delinquent for many years and are subject to various law suits pending before the court and there is reasonable doubt regarding their collectibility, except for certain account balances which cannot be quantified at present , that can be realized from proceeds of foreclosure of mortgaged properties.

Notes to the Consolidated Financial Statements

Provision for credit losses in respect of the indicated doubtful loans was set up in various currencies to the extent of LBP8.03billion up to December 31, 2006 (LBP12.99billion in 2005). Furthermore, pledged guarantee funds amounting to LBP12.19billion as at December 31, 2006 (LBP13.01billion in 2005) were deposited by the shareholders of the bank in order to cover shortfall in the amount of provisions set up for bad and doubtful loans. The shareholders' account referred to above, amounting to LBP3.81billion at 2006 year-end (LBP3billion in 2005), represents excess of pledged guarantee funds over the shortfall of provisions for credit losses which will be allocated to enhance the core capital of the bank. This account is reflected under liabilities in the accompanying balance sheet.

According to Decree No. 83 of June 27, 1977, provisions set up by banks for bad and doubtful debts are considered as deductible charges for tax purposes, provided the approval of the Banking Control Commission is secured.

According to Central Bank of Lebanon Circulars, all banks are required to take provisions between 60% and 100% for all bad and doubtful debts for which no settlement agreements have been reached up to 2006 and 2007 year-end within a maximum period ending December 31, 2007 and 2008 respectively.

10. BANKS' ACCEPTANCES

This caption represents the liability to the Bank of its customers on outstanding drafts and bills of exchange which have been accepted by the Bank and/or other banks for its account. These acceptances relate to negotiated deferred payment import letters of credit. The commitments resulting from these acceptances are stated as a liability in the accompanying balance sheet and for the same amount.

11. OTHER ASSETS

This section consists of the following:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Accrued interest receivable:		
Loans and advances	655,145	155,731
Banks	578,601	364,865
Lebanese treasury bills	2,252,900	1,987,283
Securities	2,018,955	3,922,201
Prepaid expenses	329,270	371,385
Deferred charges	356,314	237,020
Commissions due not yet received	160,561	57,484
Sundry debtors	650,768	851,626
	7,002,514	7,947,595

Notes to the Consolidated Financial Statements

12. ASSETS ACQUIRED IN SATISFACTION OF DEBTS

In accordance with BDL circular number 78, banks are required to liquidate these assets within two years. In the event of default of liquidation, such properties should be fully provided for over a period of five years as from the date commencing in the last year of the period during which assets should have been liquidated.

The movement of properties acquired in settlement of debts during 2006 and 2005 is summarized as follows:

	2006 LBP'000	2005 LBP'000
Acquisition Value:		
Beginning balance	5,382,161	989,666
Properties acquired as settlement of debts	6,063,149	4,532,877
Disposals	(809,870)	(140,382)
Ending balance	10,635,440	5,382,161
Less Reserves:		
Beginning balance	(978,638)	(978,638)
Additions	(16,675)	-
Disposals	448,783	-
Difference in exchange	93	-
Ending balance	(546,437)	(978,638)
	10,089,003	4,403,523

11. PROPERTY AND EQUIPMENT

This caption which aggregates LBP23.33billion as of December 31, 2006 (LL.20.01billion as of December 31, 2005) comprises the following:

	December 31, 2006		December 31, 2005	
	BANK LBP'000	SIPC LBP'000	BANK LBP'000	SIPC LBP'000
Land	-	2,479	-	2,479
Owned premises	6,713,897	16,328,135	6,713,897	13,578,138
Freehold improvement	2,304,025	214,024	1,654,094	214,024
Office equipment	913,147	63	820,075	63
Furniture and fixtures	503,734	7,345	366,225	7,345
Computer equipment	2,423,439	1,734	2,261,983	1,734
Electrical equipment	-	245,853	-	245,853
Industrial equipment	-	182,904	-	182,904
Vehicles	12,272	117,352	58,676	-
	12,870,514	17,099,889	11,874,950	14,232,540
Accumulated depreciation	(5,771,534)	(905,476)	(5,273,665)	(860,064)
Net book value	7,098,980	16,194,413	6,601,285	13,372,476
Advances on fixed assets	37,863	-	37,863	-
	7,136,843	16,194,413	6,639,148	13,372,476

Notes to the Consolidated Financial Statements

Property and equipment movement during the year 2006 is summarized as follows:

	Opening Balance LBP'000	Additions LBP'000	Disposals LBP'000	Closing Balance LBP'000
Cost:				
Land	2,479	-	-	2,479
Owned premises	20,292,035	2,749,997	-	23,042,032
Freehold improvement	1,868,118	649,931	-	2,518,049
Office equipment	820,138	115,996	(22,924)	913,210
Furniture and fixtures	373,570	137,745	(236)	511,079
Computer equipment	2,263,717	162,865	(1,409)	2,425,173
Electrical equipment	245,853	-	-	245,853
Industrial equipment	182,904	-	-	182,904
Vehicles	58,676	117,352	(46,404)	129,624
	26,107,490	3,933,886	(70,973)	29,970,403
Accumulated Depreciation:				
Owned premises	1,610,740	191,907	-	1,802,647
Freehold improvement	1,288,484	228,130	-	1,516,614
Office equipment	611,687	43,506	(22,924)	632,269
Furniture and fixtures	117,146	34,084	(236)	150,994
Computer equipment	2,058,728	91,406	(1,409)	2,148,725
Electrical equipment	221,108	-	-	221,108
Industrial equipment	182,096	189	-	182,285
Vehicles	43,740	13,628	(35,000)	22,368
	6,133,729	602,850	59,569	6,677,010
Net Balance	19,973,761			23,293,393
Advances on fixed assets	37,863			37,863
	20,011,624			23,331,256

Additions during the year to the owned premises resulted mainly from the adjustment of the carrying value of the subsidiary's properties where the Bank's headquarters are located, at current fair value.

14. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

Customers' deposits include coded accounts stated at LBP11.88billion as at December 31, 2006 (LBP17.63billion as at December 31, 2005). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law date September 3, 1956. Under the provisions of this Article, the Bank's Management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including the external auditors.

The average balances of deposits and related cost of funds were as follows over the last three years:

Year	Deposits as at December 31 LBP'000	Average Annual Balance of deposits LBP'000	Allocation of Deposits LBP F/Cy		Cost of funds LBP'000	Average Cost of Funds %
			%	%		
2006	490,396,314	461,647,727	27	73	25,670,994	5.56
2005	440,162,465	438,457,000	28	72	22,050,219	5.03
2004	433,884,180	422,471,000	32	68	21,438,876	5.07

The customers' deposits reflect a concentration in the distribution of deposits among account holders. Most of customers' deposits are of short-term maturities.

Customers' deposits are segregated between residents and non-residents to the extent of 93% and 7% respectively as at December 31, 2006 and 2005 respectively (94% and 6% respectively as at December 31, 2005).

15. MISCELLANEOUS CREDITORS

This section comprises the following:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Margins on letters of credit	141,231	103,897
Margins on letters of guarantee and others	1,156,523	1,085,337
Withheld taxes	366,268	387,638
Taxes payable	542,025	-
Checks and orders to be paid	99,888	32,774
Miscellaneous creditors	644,766	1,304,683
	2,950,701	2,914,329

The Bank's records were not reviewed by the National Social Security Fund since 1997.

Tax returns for 2002 were reviewed in 2006 and an additional tax of LBP42million was settled and recorded in 2006. The Bank's tax returns for the years 2003 until 2006 remain subject to examination and final assessment by the tax authorities.

16. REGULARIZATION ACCOUNTS AND OTHER LIABILITIES

This section comprises the following:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Accrued interest payable on customers' deposits	2,490,897	1,937,425
Unearned revenues	171,137	158,999
Accrued expenses	837,056	798,730
Social security dues	109,683	112,137
	3,608,773	3,007,291

17. PROVISIONS

This section comprises the following:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Provision for employees end-of-service indemnities	894,185	952,973
Provision for exchange rate fluctuations	2,064	2,867
Provision for contingencies	2,772	2,771
	899,021	958,611

The movement in the provision for employees end-of-service indemnities during 2006 and 2005 is summarized as follows:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Balance — Beginning of year	952,973	852,857
Provision set up during the year	112,881	193,437
Settlements	(171,669)	(87,245)
Adjustments	-	(6,076)
Balance — End of year	894,185	952,973

Provision for exchange rate fluctuations represent the provision set up by the bank for foreign currency fluctuation on the exchange position at year end in conformity with BCC circular number 197.

Notes to the Consolidated Financial Statements

16. CAPITAL

The Bank's capital is represented by 4,000,000 shares with a par value of LBP1,000 each authorized, issued and fully paid.

The Bank's solvency ratio as at December 31, 2006 and 2005 amounted to 23.71% and 24.88% respectively, detailed as follows:

	D e c e m b e r 3 1 ,	
	2006 LBP'000	2005 LBP'000
Assets and off-balance sheet weighted risk	210,658	185,766
Tier I and Tier II capital	49,944	46,225
Risk based capital ratio	23.71%	24.88%

19. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

These contributions are interest free and are made by the major shareholders to support and help the bank develop its activities. This sort of equity financial instrument has the advantage of being booked and maintained in foreign currency thus providing a hedging against the national currency fluctuation. According to local banking laws and regulations, shareholders' cash contribution to capital is considered as Tier I capital for the purpose of computation of the risk-based capital ratio.

The extraordinary general assembly held on August 20, 2005 decided to increase these contributions to USD39,225,000 by an immediate increase of USD4,500,000 settled by current shareholders during 2006 and an increase of USD25,000,000 not yet settled as at the financial statements issuing date.

20. RESERVES

This caption includes the following:

	D e c e m b e r 3 1 , 2 0 0 6		D e c e m b e r 3 1 , 2 0 0 5	
	BANK LBP'000	SIPC LBP'000	BANK LBP'000	SIPC LBP'000
Reserve for general banking risks	2,747,054	-	2,349,052	-
Legal reserve	458,674	1,500	375,577	1,500
General reserve	4,827	-	4,829	-
	3,210,555	1,500	2,729,458	1,500

In accordance with the requirements of Article 133 of the Lebanese Money and Credit Law, and as stipulated by the Bank's bylaws, the Bank has transferred from its inception, 10% of its net income, to the legal reserve account. This legal reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations from the Bank's net income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

Notes to the Consolidated Financial Statements

21. REVALUATION SURPLUS

Revaluation surplus resulted from the revaluation at current net realizable value of the Bank's premises, and investment in the wholly owned subsidiary. The revaluation differences were reflected in the balance sheet net of tax paid as follows:

	D e c e m b e r 3 1 ,	
	2006 LBP'000	2005 LBP'000
Bank premises	6,287,200	6,287,200
Subsidiary company owned properties (SIPC)	14,712,997	12,189,879
Assets acquired in satisfaction of debts	288,174	617,382
	21,288,371	19,094,461

According to local banking regulations the revaluation surplus of owned premises is eligible to be incorporated in the Tier II capital for the purpose of computation of the risk based capital ratio.

During 2006, the properties owned by SIPC were revaluated and resulted in an increase in the related revaluation surplus.

22. COST OF FUNDS

Interest expense on customers' deposits includes an amount of LBP222million in 2006 (LBP219million in 2005) representing premiums paid to the National Institution for Guarantee of Deposits.

23. COMMISSIONS, FEES AND OTHER REVENUES

	Year Ended December 31 ,	
	2006 LBP'000	2005 LBP'000
Rent income (subsidiary company)	45,149	114,881
Dividends from equity securities	136,653	42,747
Commissions on letters of guarantee	314,938	437,019
Commissions on letters of credit	24,108	30,753
Commissions on credit files and statements' fee	87,653	89,877
Domiciliation (telephone, cellular, electricity)	81,068	88,325
Commissions on check books and credit cards	149,925	180,067
Commissions on safe locker rental	33,011	29,494
Commissions on private banking	336,857	209,869
Commissions on transfers	108,983	88,428
Other commissions	324,667	257,766
	1,643,012	1,569,226

24. CASH FLOW STATEMENT

The Following investing activities that represent non-cash items were excluded from the cash flow statement:

1. Increase in fair value of available for sale securities in the amount of LBP201million during 2006.
2. Assets acquired in satisfaction of debt in the amount of LBP 6.06billion during 2006.(LBP4.53billion during 2005)
3. Decrease in the revaluation reserves of assets acquired in satisfaction of debts in the amount of LBP 329million and an increase in the revaluation reserves of real estate property in the amount of LBP2.52billion during 2006.
4. Provisions transferred to Shareholders' account in the amount of LBP 813million.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and current accounts with correspondents.

26. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risks. The guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans on the balance sheet. However, documentary and commercial letters of credit, which represent written understandings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore, have significantly less risks.

27. FIDUCIARY TRANSACTIONS

Fiduciary transactions as at 2006 and 2005 year-ends include the following:

	D e c e m b e r 3 1 ,	
	2006	2005
	LBP'000	LBP'000
Back to back lending	24,414,930	27,396,013
Fiduciary deposits with banks	3,508,136	1,070,325
Other placements	7,190,117	1,061,365
	35,113,183	29,527,703

Back to Back lending are subject to interest differential of 0.5% to 2% representing a fee income. The Bank's participation in the credit risk of the above debtors amounts to LBP14.38billion (USD9.54million) as of December 31, 2006 (LBP14.48billion the equivalent of USD9.61million in 2005).

28. DISTRIBUTION OF EXPENSES AND OTHER REVENUES BETWEEN THE BANK AND ITS SUBSIDIARY

The statement of operations for the year ended December 31, 2006 includes the Bank's and Subsidiary's income and expenses after the elimination of intra-company transactions as follows:

	BANK	SIPC	TOTAL
	LBP'000	LBP'000	LBP'000
Commissions, fees and other revenues	(1,505,268)	(137,744)	(1,643,012)
Salaries and related charges	6,795,520	369,932	7,165,452
General operating expenses	3,157,854	299,037	3,456,891
Depreciation	574,110	45,415	619,525

29. NET INCOME FOR THE YEAR

The consolidated income is segregated as follows:

	2006	2005
	LBP'000	LBP'000
Net income for the Bank	1,426,672	830,975
Net results of SIPC S.A.L. (a subsidiary company)	(356,352)	(349,878)
Total	1,070,320	481,097

30. COMPARATIVE FINANCIAL STATEMENTS

Certain 2005 comparative figures were reclassified to conform to the current year's presentation.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FAIR VALUE

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently difference can arise between carrying values and fair value estimates.

The on-balance sheet financial instruments are reflected in the financial statements according to their classifications, in accordance with IAS 39. Available-for-sale securities are reflected at their fair value. Held-to-maturity securities are carried at cost and adjusted for non-temporary decline in value and/or impairment loss. Fair values of these instruments are disclosed in Note 6..

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group manages its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific business segments and/or locations. It also takes security as deemed appropriate.

Notes to the Consolidated Financial Statements

The debt instruments included in investment portfolio are mainly sovereign risk. For details of the composition of the loans and advances refer to Note 6.

MARKET RISK

The market risk includes, among other things, the exchange risk and interest rate risk:

Exchange Risk:

The Group attempts to cover the exchange risk rate might affect its financial position, its profitability and cash flows through operating within the operational exchange position limits set by the Alco Committee. Furthermore, the Group hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency in line with the regulatory authorized limits.

SEGREGATION OF ASSETS AND LIABILITIES AMONG MAJOR CURRENCIES

D e c e m b e r 3 1 , 2 0 0 6

	LBP	USD	Euro	Other Currencies	Total
	C/V in LBP	C/V in LBP	C/V in LBP	C/V in LBP	
	In 000	In 000	In 000	In 000	LBP'000
ASSETS:					
Non-interest earning compulsory reserves	15,484,443	-	-	-	15,484,443
Cash and due from banks	1,959,352	8,653,275	4,489,893	1,121,513	16,224,033
Placements with banks and financial institutions	2,003,344	96,214,714	12,958,082	2,805,845	113,981,985
Available-for-sale securities	1,131,313	3,171,082	-	-	4,302,395
Held-to-maturity	94,827,548	96,827,287	-	-	191,654,835
Loans and advances	7,411,541	145,370,190	17,921,065	546	170,703,342
Banks' acceptances	-	373,040	67,189	-	440,229
Other assets	3,746,696	3,212,916	25,514	17,388	7,002,514
Assets acquired in satisfaction of debts	(70,082)	10,159,085	-	-	10,089,003
Property and equipment	22,310,077	1,021,179	-	-	23,331,256
Total Assets	148,804,232	365,002,768	35,461,743	3,945,292	553,214,035
LIABILITIES:					
Due to banks and financial institutions:					
Demand deposits	29,115	-	-	-	29,115
Customers deposits and credit balances	116,180,850	334,955,984	35,682,064	3,577,416	490,396,314
Miscellaneous creditors	1,414,134	1,510,673	25,894	-	2,950,701
Engagements by acceptances	-	373,040	67,189	-	440,229
Regularization accounts and other liabilities	1,523,468	2,027,756	(313,762)	371,311	3,608,773
Provisions	899,021	-	-	-	899,021
Shareholders' account	-	3,812,862	-	-	3,812,862
Total Liabilities	120,046,588	342,680,315	35,461,385	3,948,727	502,137,015
Net currency risks	28,757,644	22,322,453	358	(3,435)	51,077,020

Notes to the Consolidated Financial Statements

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	LBP In 000	US C/V in LBP In 000	Euro C/V in LBP In 000	Other Currencies C/V in LBP In 000	Total LBP'000
ASSETS:					
Non-interest earning compulsory reserves	16,123,131	-	-	-	16,123,131
Cash and due from banks	1,699,663	9,048,215	1,671,933	467,805	12,887,616
Placements with banks and financial institutions	6,103,156	65,883,888	5,269,010	3,758,733	81,014,787
Securities	98,828,400	104,220,104	-	-	203,048,504
Loans and advances	5,950,289	130,128,760	16,571,175	225	152,650,449
Banks' acceptances	-	434,460	205,932	-	640,392
Other assets	5,027,642	2,897,675	5,962	16,316	7,947,595
Assets acquired in satisfaction of debts	(797,105)	5,200,628	-	-	4,403,523
Property and equipment	19,063,612	948,012	-	-	20,011,624
Total Assets	151,998,788	318,761,742	23,724,012	4,243,079	498,727,621
LIABILITIES:					
Due to banks and financial institutions:					
Demand deposits	30,900	-	-	-	30,900
Customers deposits and credit balances	123,242,349	289,221,591	23,622,450	4,076,075	440,162,465
Miscellaneous creditors	803,038	2,085,184	21,073	5,034	2,914,329
Engagements by acceptances	-	434,460	205,932	-	640,392
Regularization accounts and other liabilities	1,603,882	1,366,882	(125,443)	161,970	3,007,291
Provisions	958,611	-	-	-	958,611
Shareholders' account	-	3,000,000	-	-	3,000,000
Total Liabilities	126,638,780	296,108,117	23,724,012	4,243,079	450,713,988
Net currency risks	25,360,008	22,653,625	-	-	48,013,633

Interest Rate Risk:

Interest sensitivity of assets, liabilities and off balance sheet items

The Group is exposed to various risk associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the Alco Committee.

The Group has no off-balance sheet instruments subject to interest rate risk exposure.

The effective interest rate (effective yield) of a monetary financial instruments is the rate that, when used in a present value calculation, results in carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

Notes to the Consolidated Financial Statements

Allocation of assets and liabilities in Lebanese Pounds as of December 31, 2006 by maturity and split between floating and fixed interest rates:

	Floating Interest Rate					Fixed Interest Rate					Grand Total	
	Non-Interest Earning	Up to One Year	1-3 Years	3-5 Years	Over 5 Years	Total	Up to One Year	1-3 Years	3-5 Years	Over 5 Years		Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets												
Non-interest earning compulsory reserves	15,484,443	-	-	-	-	-	-	-	-	-	-	15,484,443
Cash and due from banks	1,959,352	-	-	-	-	-	-	-	-	-	-	1,959,352
Placements with banks and financial institutions	-	3,344	-	-	-	3,344	2,000,000	-	-	-	2,000,000	2,003,344
Securities	1,131,313	-	-	-	-	-	35,369,008	40,075,687	19,382,853	-	94,827,548	95,958,861
Loans and advances	-	3,676,901	1,489,008	555,960	1,689,672	7,411,541	-	-	-	-	-	7,411,541
Banks' acceptances	-	-	-	-	-	-	-	-	-	-	-	-
Order assets	3,746,696	-	-	-	-	-	-	-	-	-	-	3,746,696
Assets acquired in satisfaction of debts	(70,082)	-	-	-	-	-	-	-	-	-	-	(70,082)
Property and equipment	22,310,077	-	-	-	-	-	-	-	-	-	-	22,310,077
Total assets	44,561,799	3,680,245	1,489,008	555,960	1,689,672	7,414,885	37,369,008	40,075,687	19,382,853	-	96,827,548	148,804,232
Liabilities												
Demand deposits	29,115	-	-	-	-	-	-	-	-	-	-	29,115
Customers' deposits	5,188,693	110,992,157	-	-	-	110,992,157	-	-	-	-	-	116,180,850
Miscellaneous creditors	1,000,496	413,638	-	-	-	413,638	-	-	-	-	-	1,414,134
Engagements by acceptances	-	-	-	-	-	-	-	-	-	-	-	-
Regularization accounts and other liabilities	1,586,468	-	-	-	-	-	-	-	-	-	-	1,586,468
Provisions	899,021	-	-	-	-	-	-	-	-	-	-	899,021
Shareholders' account	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	8,703,793	111,405,795	-	-	-	111,405,795	-	-	-	-	-	120,109,588
Interest sensitivity	35,858,006	(107,725,550)	1,489,008	555,960	1,689,672	(103,990,910)	37,369,008	40,075,687	19,382,853	-	96,827,548	28,694,644

Notes to the Consolidated Financial Statements

Allocation of assets and liabilities in Foreign Currencies as of December 31, 2006 by maturity and split between floating and fixed interest rates:

	Floating Interest Rate					Fixed Interest Rate					Grand Total	
	Non-Interest Earning	Up to One Year	1-3 Years	3-5 Years	Over 5 Years	Total	Up to One Year	1-3 Years	3-5 Years	Over 5 Years		Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets												
Non-interest earning compulsory reserves	-	-	-	-	-	-	-	-	-	-	-	-
Cash and due from banks	10,639,930	2,343,376	-	-	-	2,343,376	1,281,375	-	-	-	1,281,375	14,264,681
Placements with banks and financial institutions	-	11,683,127	-	-	-	11,683,127	100,295,514	-	-	-	100,295,514	111,978,641
Securities	227,502	-	-	-	-	-	766,170	23,452,893	12,773,640	62,778,164	99,770,867	99,998,369
Loans and advances	-	160,721,986	1,708,949	665,599	195,267	163,291,801	-	-	-	-	-	163,291,801
Banks' acceptances	440,229	-	-	-	-	-	-	-	-	-	-	440,229
Order assets	3,255,818	-	-	-	-	-	-	-	-	-	-	3,255,818
Assets acquired in satisfaction of debts	10,159,085	-	-	-	-	-	-	-	-	-	-	10,159,085
Property and equipment	1,021,179	-	-	-	-	-	-	-	-	-	-	1,021,179
Total assets	25,743,743	174,748,489	1,708,949	665,599	195,267	177,318,304	102,343,059	23,452,893	12,773,640	62,778,164	201,347,756	404,409,803
Liabilities												
Demand deposits	-	-	-	-	-	-	-	-	-	-	-	-
Customers' deposits	72,002,570	302,212,894	-	-	-	302,212,894	-	-	-	-	-	374,215,464
Miscellaneous creditors	603,103	933,464	-	-	-	933,464	-	-	-	-	-	1,536,567
Engagements by acceptances	440,229	-	-	-	-	-	-	-	-	-	-	440,229
Regularization accounts and other liabilities	2,022,305	-	-	-	-	-	-	-	-	-	-	2,022,305
Provisions	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' account	3,812,862	-	-	-	-	-	-	-	-	-	-	3,812,862
Total liabilities	78,881,069	303,146,358	-	-	-	303,146,358	-	-	-	-	-	382,027,427
Interest sensitivity	(53,137,326)	(128,397,869)	1,708,949	665,599	195,267	(125,828,054)	102,343,059	23,452,893	12,773,640	62,778,164	201,347,756	22,382,376

Allocation of assets and liabilities in Lebanese Pounds as of December 31, 2005 by maturity and split between floating and fixed interest rates:

	Floating Interest Rate					Fixed Interest Rate					Grand Total	
	Non-Interest Earning	Up to One Year	1-3 Years	3-5 Years	Over 5 Years	Total	Up to One Year	1-3 Years	3-5 Years	Over 5 Years		Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets												
Non interest earning compulsory reserves	16,123,131	-	-	-	-	-	-	-	-	-	-	16,123,131
Cash and due from banks	1,661,130	38,533	-	-	-	38,533	-	-	-	-	-	1,699,663
Placements with banks and financial institutions	-	6,100,000	-	-	-	6,100,000	3,155	-	-	-	3,155	6,103,155
Securities	1,131,313	-	-	-	-	-	18,073,144	60,374,198	19,249,745	-	97,697,087	98,828,400
Loans and advances	-	1,206,276	1,348,738	1,028,716	2,366,559	5,950,289	-	-	-	-	-	5,950,289
Other assets	5,027,642	-	-	-	-	-	-	-	-	-	-	5,027,642
Assets acquired in satisfaction of debts	(797,105)	-	-	-	-	-	-	-	-	-	-	(797,105)
Property and equipment	19,063,612	-	-	-	-	-	-	-	-	-	-	19,063,612
Total assets	42,209,723	7,344,809	1,348,738	1,028,716	2,366,559	12,088,822	18,076,299	60,374,198	19,249,745	-	97,700,242	151,998,787
Liabilities												
Banks and financial instruments												
Demand deposits	30,900	-	-	-	-	-	-	-	-	-	-	30,900
Customers' deposits and credit balances	4,035,429	119,206,921	-	-	-	119,206,921	-	-	-	-	-	123,242,350
Miscellaneous creditors	417,265	385,773	-	-	-	385,773	-	-	-	-	-	803,038
Regularization accounts and other liabilities	1,603,883	-	-	-	-	-	-	-	-	-	-	1,603,883
Provisions	958,611	-	-	-	-	-	-	-	-	-	-	958,611
Total liabilities	7,046,088	119,592,694	-	-	-	119,592,694	-	-	-	-	-	126,638,782
Interest sensitivity	35,163,635	(112,247,895)	1,348,738	1,028,716	2,366,559	(107,503,872)	18,076,299	60,374,198	19,249,745	-	97,700,242	25,360,005

Notes to the Consolidated Financial Statements

Allocation of assets and liabilities in Foreign Currencies as of December 31, 2005 by maturity and split between floating and fixed interest rates:

	Floating Interest Rate					Fixed Interest Rate					Grand Total	
	Non-Interest Earning	Up to One Year	1-3 Years	3-5 Years	Over 5 Years	Total	Up to One Year	1-3 Years	3-5 Years	Over 5 Years		Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets												
Cash and due from banks	3,314,604	7,873,349	-	-	-	7,873,349	-	-	-	-	-	11,187,953
Placements with banks and financial institutions	-	42,457,491	28,944,000	753,750	-	72,155,241	2,756,391	-	-	-	2,756,391	74,911,632
Securities	220,256	-	-	-	-	-	30,318,269	9,806,036	19,718,466	44,157,077	103,999,848	104,220,104
Loans and advances	-	144,840,303	1,235,586	445,243	179,028	146,700,160	-	-	-	-	-	146,700,160
Banks' acceptances	640,392	-	-	-	-	-	-	-	-	-	-	640,392
Other assets	2,919,953	-	-	-	-	-	-	-	-	-	-	2,919,953
Assets acquired in satisfaction	5,200,628	-	-	-	-	-	-	-	-	-	-	5,200,628
Property and equipment	948,012	-	-	-	-	-	-	-	-	-	-	948,012
Total assets	13,243,845	195,171,143	30,179,586	1,198,993	179,028	226,728,750	33,074,660	9,806,036	19,718,466	44,157,077	106,756,239	346,728,834
Liabilities												
Customers' deposits and credit balances	16,588,570	300,331,545	-	-	-	300,331,545	-	-	-	-	-	316,920,115
Miscellaneous creditors	1,307,829	803,462	-	-	-	803,462	-	-	-	-	-	2,111,291
Engagements by acceptances	640,392	-	-	-	-	-	-	-	-	-	-	640,392
Regularization accounts and other liabilities	1,403,408	-	-	-	-	-	-	-	-	-	-	1,403,408
Shareholders' account	3,000,000	-	-	-	-	-	-	-	-	-	-	3,000,000
Total liabilities	22,940,199	301,135,007	-	-	-	301,135,007	-	-	-	-	-	324,075,206
Interest sensitivity	(9,696,354)	(105,963,864)	30,179,586	1,198,993	179,028	(74,406,257)	33,074,660	9,806,036	19,718,466	44,157,077	106,756,239	22,653,628

LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity approach, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Management monitors the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained.

OPERATIONAL RISK

Operational risk is the risk that might cause losses to the Group resulting from deficiency of computer processing from deficiencies and lack of procedures, and inappropriate behavior of employees. The Group manages this risk through regular training and seminars to employees and through putting in place procedures for proper internal control and segregating of duties.

32. RELATED PARTY TRANSACTIONS

Credit facilities granted and utilized by the member of Board of Directors or companies in which those members are either chairman or board members are shown under related party loans and advances and customers' deposits.

- The Group rented from "El-Bustan Hotel S.A.L." a plot for the period from June 1, 2006 till May 31, 2007 against an annual fee of LBP2million.
- The Group signed a maintenance contract with "El-Bustan Maintenance S.A.R.L." against an annual commission between 5% and 15% of total value of the work performed. During 2005, and until July commissions paid to the company amounted to LBP71million.
- The Group has also signed a consulting contract with "Finserver Limited" for financial services. Total consulting fees during 2006 amounted to LBP335million.
- The remuneration of the chairman and executive board members amounted to LBP755million in 2006 (LBP623million in 2005).

33. APPROVAL OF THE FINANCIAL STATEMENTS

The Board of Directors has approved the consolidated financial statements of the Group and its subsidiary for the year ended December 31, 2006 in its meeting held on January 25, 2007.